

Message from our President



As we approach the 100th anniversary of our foundation, we will pursue business management that balances economic purpose with social purpose and drive through *henkaku* (Change) targeting a "new ISEKI"



"Toward the next 100 years..."

Shiro Tomiyasu Representative Director, President & Executive Officer ISEKI & CO., LTD.

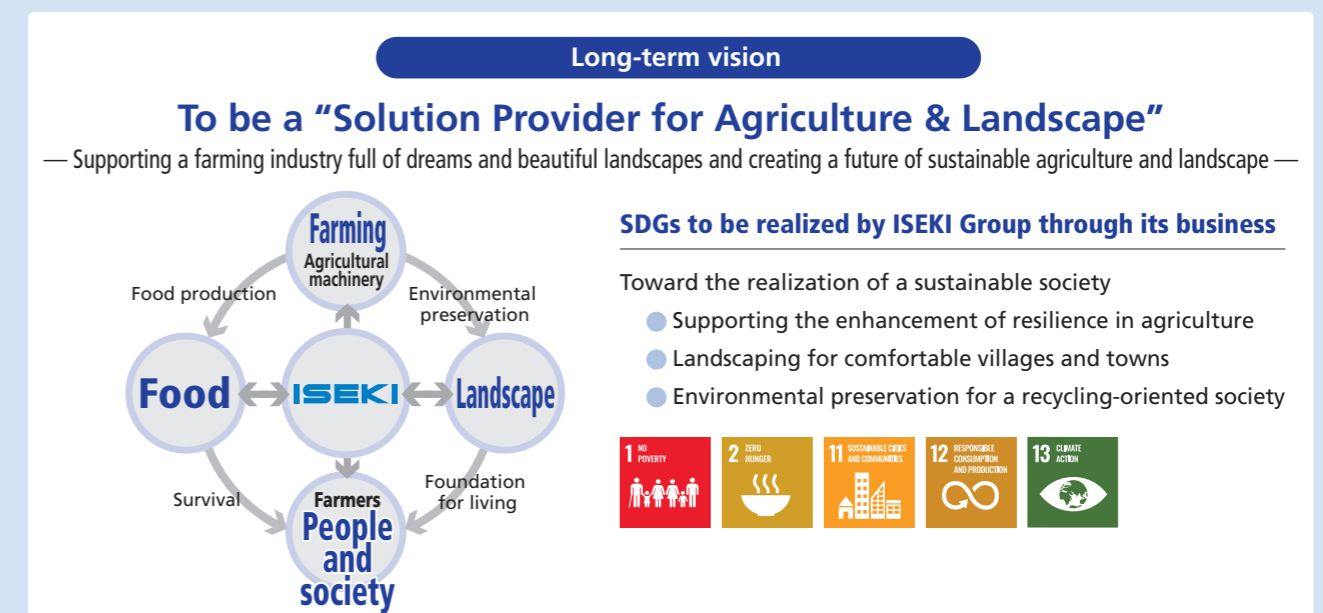
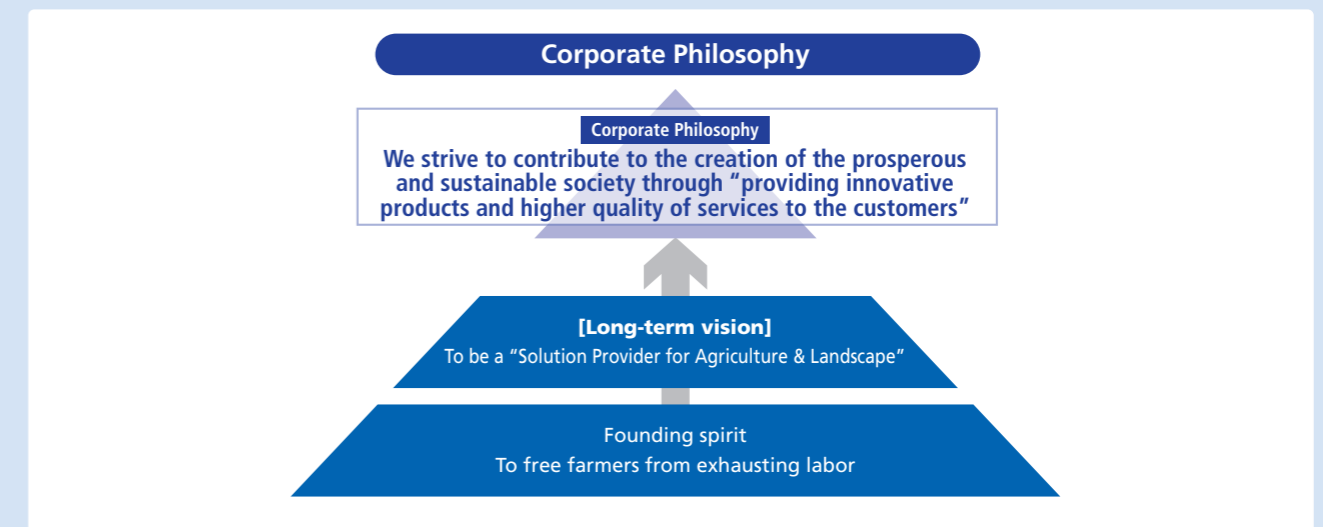
ISEKI & CO., LTD.'s Purpose

Our aspiration to be farmers' closest supporter is a source of pride and an enduring commitment

The history of ISEKI Group began when our founder Kunisaburo Iseki established Iseki Farm Implement Trading Co. in Aratama-cho, Matsuyama City, Ehime Prefecture, and started manufacturing fully-automated rice hullers. Having inherited the Company's founding spirit of "freeing farmers from exhausting labor" in an unbroken line since then, in 2025, we will mark the 100th anniversary of the Company's founding.

Comparing Japan's rice farming in 1960 with that of today, the energy required to produce one unit of rice has decreased to around one-seventh of what it was. It was ISEKI Group that drove the mechanization and modernization that made this possible, leveraging its technological capabilities in product development. Even today, the Group's continued high ranking in terms of the number of patents acquired per specialty field is testament to its long-inherited aspiration to be farmers' closest supporter.

As an integrated manufacturer with this product development DNA that specializes in agricultural machinery, the social issue that the Group needs to seek solutions for first and foremost is the worldwide problem of food security that emerged following the COVID-19 pandemic and the invasion of Ukraine. The world's population reached 8 billion in 2022, and is expected to reach approximately 10 billion around 2050. Considering that just over ten percent of the world's population are suffering hunger, boosting food production is a pressing issue. However, the land area under cultivation cannot be increased due to issues such as the associated environmental burden and reduced availability of farmland caused by industrialization and desertification. Thus, improved agricultural productivity is essential. In Japan, as in other countries, food security, including the stability of food supplies and food self-sufficiency, is a key issue. On the other hand, the riding lawn mowers and compact tractors that we supply primarily to the European market are utilized for landscaping, such as maintenance of parks and fields, road cleaning, and snow clearing. Through such uses, they help to make villages and towns comfortable, thereby contributing to an improved quality of life for citizens. ISEKI Group has a long history in the European



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market, where recognition of the ISEKI brand is high. In recent years, we have addressed the issue of growing environmental awareness by developing and supplying more electrification products. All these fields associated with improvements in agricultural productivity and quality of life are areas in which the Group's strengths can be leveraged.

In light of this, in February 2021 we redefined ISEKI Group's Purpose, taking into account the strengths we had accumulated and the social issues we needed to seek solutions for. In conjunction with this, we decided on the Corporate Philosophy "We strive to contribute to the creation of the prosperous and sustainable society through 'providing innovative products and higher quality of services to the customers.'" We also set the long-term vision of becoming a "solution provider for agriculture and landscape."

Farming safeguards food and land and provides the foundation to realize prosperity for people and society. We regard it as our Purpose to become such a corporate group—one that supports farming and farmers, and provides solutions to associated issues (please refer to "Long-term vision" in the bottom figure on P14). We also believe that these business activities on the part of ISEKI Group can contribute to solving the challenges of the SDGs. ISEKI Group identified certain materiality (priority issues) that it will address for the achievement of its aspirations and long-term vision, and linked these to specific SDGs as the basis for pursuing related activities. Particular SDGs to which we believe we can contribute through improved agricultural productivity are Goal 1, "No poverty" and Goal 2, "Zero hunger." We also believe we can contribute to Goal 11, "Sustainable cities and communities" through improvement of quality of life.

ISEKI Group will use the knowledge and experience we have cultivated over the years to fulfill social responsibilities and contribute to solving the challenges of the SDGs with the aim of remaining an essential company.

Review of the fiscal year ended December 31, 2022

During FY2022, we were buffeted by a dramatically changed business environment

In the fiscal year ended December 31, 2022, sales declined in the Japanese domestic market, which accounts for almost 70% of the Group's net sales. This reflected deterioration in purchasing sentiment among farmers as a result of falling rice prices combined with soaring prices for agricultural materials such as fertilizers and pesticides. Moreover, the effects of the COVID-19 pandemic and the invasion of Ukraine led to supply chain disruption including lockdowns affecting overseas factories and delayed procurement of semiconductors. This prevented us from adequately procuring key components previously sourced overseas, and as a result, we were unable to supply enough of the large agricultural machinery that is the main focus of the Group's business.

Meanwhile, in overseas markets we again achieved the highest net sales on record, almost reaching our target for 2025, the final fiscal year of our Mid-term Management Plan. Key contributors to this result were strong

performances by landscaping machinery in Europe and by compact tractors in North America, along with continuing depreciation of the yen. As a result, sales in Japan and overseas combined were in line with the Plan.

In terms of earnings, we were impacted by further escalation in raw material prices, and despite our efforts to absorb the additional costs by raising the prices we charge, in the domestic market the benefits remained limited, and as a result operating income declined. However, our calculations show that, supposing raw material prices had not soared, our operating margin would have exceeded the 3% targeted for FY2022 under the Mid-term Management Plan. We therefore believe that the benefits of measures implemented under the Plan have started to emerge to some extent. Meanwhile, operating cash flow for the year was negative, primarily due to increased inventories following a delay in receiving stock as a result of delayed parts procurement at an OEM partner in North America, as well as the impact of consolidation of ISEKI Germany. It was a year in which we were buffeted by a dramatically changed business environment, leaving us with issues to address in terms of the Group's resilience going forward.

Priorities in the fiscal year ending December 31, 2023

We will speed up *henkaku* (Change) to achieve our Mid-term Management Plan goals

Indicating a path toward a 5% operating margin

ISEKI Group's results forecasts for the fiscal year ending December 31, 2023 are as follows: 176.5 billion yen in net sales (a 5.9% increase year on year), 4.5 billion yen in operating income (a 27.3% increase year on year), 4.0 billion yen in ordinary income (a 6.3% increase year on year), 2.6 billion yen in profit attributable to owners of parent (a 36.9% decrease year on year). In addition, we set the target of restoring our operating margin to 2.5% in the fiscal year ending December 31, 2023 to establish a path toward achieving the 5% operating margin set as the Mid-term Management Plan's numerical target for the fiscal year ending December 31, 2025.

ISEKI Group's Mid-term Management Plan comprises two basic strategies. The first is provision of the best solutions. The second is enhancement of corporate value by strengthening profits and reinforcing corporate governance; that is to say, a transformation into a company with a lean and streamlined business structure that can constantly generate profit without being affected by the fluctuation in sales.

Addressing structural changes in Japan's agricultural industry (Provision of the best solutions)

The Strategy for Sustainable Food Systems, MIDORI, implemented by the Ministry of Agriculture, Forestry and Fisheries, is now well underway and structural changes in Japan's agricultural industry are progressing in line with the strategy's keywords of environmental preservation and smart agriculture. ISEKI Group too is stepping up its initiatives to expedite these structural changes. One of our killer products in this regard is the Aigamo-Robo weeding robot. The robot makes it possible to control the

growth of weeds in rice paddies without using chemical pesticides. We formed a capital and business alliance with Yukimai Design Co., Ltd., the robot's developer, and after conducting demonstration experiments on the product in more than 200 locations and adjusting its design, full-scale sales were launched in 2023.

In addition to making steady progress on collaboration with local governments and private-sector companies to disseminate and promote environmentally sound smart agriculture, we are continuing to focus on developing products and deploying sales strategies catering to the increase in large-scale farming and the transition to smart farming.

In large-sized agricultural machinery, we will seek to expand sales with a focus on the "All Japan series" of products for large-scale producers. In smart agricultural machinery, we made progress with deployment of our GPS-enabled straight-travel assist function, launching a new product in the mid-sized tractor class in 2022. In 2023, our 10-row rice transplanter and "JAPAN"-brand combine harvester, both equipped with the same straight-travel assist function, started full-scale operation. Looking ahead, we will continue striving to expand sales of smart agricultural machinery and expedite further releases of products catering to structural changes in Japan's agricultural industry.

Meanwhile, we are providing services, including information and know-how, by continuing to expand our large-scale maintenance facilities and improve our educational programs and other offerings catering to the needs of large-scale farmers. In addition, we are expanding our concept of services, hastening the use of data obtained from smart agricultural machinery in new sales services, as well as in products, to drive forward the evolution of an agricultural business model based on total ICT solutions.

Measures for Europe, North America, and Asia (Provision of the best solutions)

ISEKI Group operates its overseas business in three regions. The first is North America, where we supply compact tractors, primarily of 40HP or less, for private users. The second region is Europe, where we supply tractors and lawn mowers for landscaping. The third region is Asia, where we supply agricultural machinery for rice farming, drawing on our technological development cultivated in Japan. Overseas sales have increased steadily as a result of implementing measures in the Mid-term Management Plan and currently account for over 30% of total sales. We will continue targeting further growth, seeking the best solutions for each region.

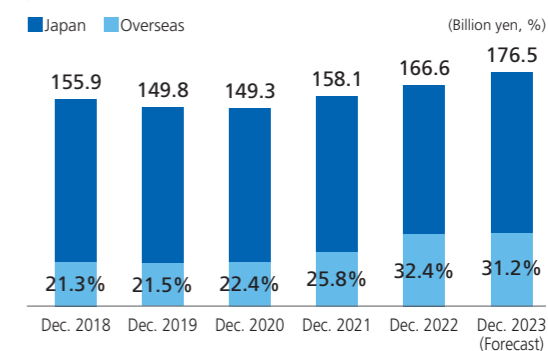
Demand in the North American compact tractor market increased significantly in recent years due to lifestyle changes spurred primarily by city dwellers' increasing tendency to move out to the suburbs during the COVID-19 pandemic. Currently, however, changes in national monetary policies and other factors have led to an ongoing correction phase. We will forge even closer collaboration with our business partner AGCO Corporation and seek to expand market share by implementing product strategies aligned with the characteristics of each region and improving sales and services.

In Europe, demand for tractors and lawn mowers for use by individual consumers started expanding in 2021, and is still growing robustly. At the same time, sales are strong in the market targeting professional users, where ISEKI Group commands a strong presence. We already commenced

limited sales of electric riding lawn mowers and will use this as a first step in accelerating the roll-out of electric products, enhancing our lineup of environmentally-friendly offerings. In addition, we established the capacity to strengthen our sales channels in Europe by making local distributor ISEKI Germany into a consolidated subsidiary.

In Asia, meanwhile, we strengthened the sales channels of IST Farm Machinery Co., Ltd. (IST), our consolidated subsidiary in Thailand. In the Thai market, we had already started selling low-priced compact tractors manufactured in India, and we began expanding sales of these, including tractors for farming field crops other than rice, transitioning to a full-scale growth phase for these products.

Consolidated net sales



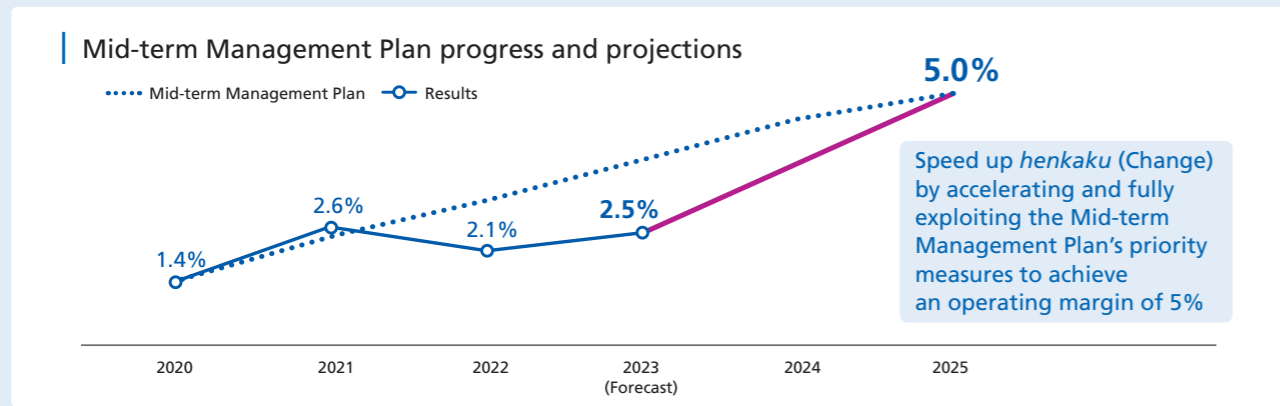
Establishment of an optimal production system (Enhancement of corporate value by strengthening profits and reinforcing corporate governance)

With regard to ISEKI Group's key challenge of improving profitability, we are doing so by pursuing the priority measure of establishing an optimal production system at our production sites in Japan and overseas. Our Japan-based production sites in particular are dedicated to specific products, presenting issues with regard to duplication of human resources and equipment, and standardization of production processes. We will seek to improve productivity by reorganizing this structure to make effective use of equipment and the optimal placement of Group personnel with the overall aim of reforming the structure of our business and improving management efficiency.

We are already contributing to the establishment of an optimal production system by taking steps to shift production of certain models manufactured at our Matsuyama production site to PT. ISEKI INDONESIA. Since PT. ISEKI INDONESIA first started manufacturing tractors for the North American market in 2014, its production volumes have increased continuously as a result of expansion in the overseas business and an enhanced lineup of models for the ASEAN and European markets. In March 2023, we completed the addition of a new factory building that we had undertaken as an initiative to continue increasing production volumes by further expanding the overseas business and shifting more of our production. We will use this initiative as a first step in accelerating our establishment of an optimal production system on a global basis and improving profitability.

Thus, we are steadily implementing the measures detailed in our Mid-term Management Plan, but we are still only partway toward achieving our target of a 5% operating margin. We are seeking to establish a path toward

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an operating margin of 5% by accelerating and fully exploiting the Mid-term Management Plan's priority measures in order to speed up *henkaku* (Change). Furthermore, we will create operating cash flow of 60 billion yen cumulative over the five years of the Mid-term Management Plan by taking steps to optimize our inventories, which increased due to supply chain disruption, and to steadily trim down property, plant and equipment and improve management efficiency. Using this cash, we will strive to reform the structure of our business and reduce interest-bearing debt, aiming to achieve ROE of 8%.

Aiming for sustainable growth

We set up the ESG Committee, establishing a framework that enables the management team to strengthen their involvement

In August 2022, we set up the ESG Committee as a consultative body of the Board of Directors regarding the enhancement of ISEKI Group's ESG initiatives. The Committee is comprised of Directors and Corporate Officers, and is chaired by an Independent Outside Director. In principle, Committee meetings are held each month, and the Committee seeks to find solutions for the Group's materiality by examining and deliberating ESG-related initiatives for the Group as a whole from the perspective of risks and growth opportunities. Such initiatives include responses to climate change, respect for human rights, and employee health. The results of deliberations at Committee meetings are recommended to the Board of Directors, which in turn deliberates and determines important matters. This has established a framework enabling the management team to strengthen their involvement. Eight working groups (WGs) have also been set up, and these are actively pursuing related activities. Through such initiatives, we are driving our ESG-related activities forward.

Environmental initiatives

ISEKI Group practices environmental management, treating realization of a decarbonized and recycling-oriented society as a materiality. In 2022, we formulated a new Environmental Vision and reviewed the Basic Environmental Policy and mid- to long-term environmental targets. In terms of specific initiatives, we are enhancing our lineup of environmentally-friendly products and services, such as proposals for environmentally sound smart agriculture and electrification products. In addition, we are replacing

equipment at the Matsuyama production site (our "mother factory") with a view to switching energy sources from heavy oil to liquefied natural gas (LNG). We also announced our endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and started disclosing information in line with these recommendations. Going forward, we will continue contributing to solutions for climate change issues and reduction of agriculture's burden on the environment.

Initiatives related to human capital and diversity

Active participation in the workplace by women is an indicator of diversity and inclusion. Our local subsidiaries overseas have female employees serving as Directors, and at our Thai subsidiary IST, women account for more than half of departmental general managers. We are using these women as role models to introduce the same practices in Japan and create the necessary conditions for establishing a corporate culture in which women can participate actively. In addition, ISEKI Group participates in the NOGYOJOSHI (female farmers) project by the Ministry of Agriculture, Forestry and Fisheries. Through such activities, we are exploring the potential for spurring female farmers into action.

Meanwhile, we are pursuing optimal placement of personnel by transferring individuals among Group companies, thereby concentrating resources on our priorities. For instance, in Asia, which is an engine of our overseas growth, as well as a region where we can leverage the know-how cultivated in Japan, we are seeking to accelerate growth by assigning executives currently working in Japan-based sales. Meanwhile, we are working to further enhance our employee education programs relating to diversified recruitment and digital transformation (DX), among other topics.

At the meeting of the Board of Directors held on February 28, 2023, ISEKI Group passed resolutions approving a policy for human resources development and a policy for workplace environment creation. ISEKI Group will continue to maximize its human resource capability by focusing on enhancement of employee engagement and human resource transformation.

Initiatives to reinforce corporate governance

ISEKI has established the Nomination and Compensation Committee, comprised of two Representative Directors and three Outside Directors, as a consultative body of the Board of Directors regarding compensation of Directors and Corporate Officers. In 2022, we revised the Directors' compensation system on the recommendation of

the Nomination and Compensation Committee. The purpose of this revision was to make compensation's link to business results and share value more explicit. The revision is intended to increase Directors' focus on helping to improve business results and enhance corporate value over the medium to long term by ensuring that they have the same interests in the risks and benefits of share price fluctuations as shareholders. Other initiatives we are actively pursuing include evaluations of the effectiveness of the Board of Directors to revitalize the Board and improve its functions. Meanwhile, we will strive to improve the Price Book-value Ratio (PBR) by taking steps to enhance corporate value including (1) improving profitability, (2) improving asset and capital efficiency, (3) providing shareholder returns, and (4) conducting appropriate investor relations activities, including better communication of our growth strategies.

Toward the next 100 years...

Pursuing an economic role alongside a social role

ISEKI Group, Japan's only integrated manufacturer specializing in agricultural machinery, has always founded its business on an aspiration to be farmers' closest supporter. This aspiration is rooted in an abiding commitment to acting first and foremost for the benefit of customers. This is our greatest strength, and I believe it is precisely because we are fulfilling this social role that we have been able to continue operating our business for almost 100 years.

Recent developments such as COVID-19 and the invasion of Ukraine have triggered growing interest in food

security, improved food self-sufficiency, and other food-related issues. Agriculture supports food supply, including addressing the need for increased food production to cater to future population growth. As such, agriculture, and the landscaping business, which supports people's daily lives, are being recognized anew as essential businesses. I believe that ISEKI Group, which facilitates the agriculture and landscaping businesses, can grow while continuing to fulfill its social role by contributing to these businesses through activities that support customers.

Moreover, for the Group to sustain its development over the next 100 years and continue providing innovative products and higher quality of services to customers, we must operate our business in such a way that a diverse range of stakeholders, including shareholders, suppliers, and employees, can feel confident about joining forces with us. In other words, it is essential to generate adequate profits and fulfill an economic role as well.

These two roles do not need to be prioritized one above the other; I believe they can balance and complement each other as they progress. However, ISEKI has become accustomed to lagging behind somewhat in terms of pursuing its economic role. Now, therefore, we are driving through *henkaku* (Change) so that in 2025, when we mark the 100th anniversary of the Company's founding, ISEKI operates in such a way that it fulfills its economic role in addition to the social role it has contributed to over the years. In order to achieve this, I consider it my own personal responsibility to involve the entire Group in a concerted effort to drive forward the aforementioned transformation into a company with a lean and streamlined business structure. I hope we can continue to rely on your support as we endeavor to forge a "new ISEKI."

